

From: Rick Shindell [rick@zyn.com]
Sent: Monday, April 04, 2005 3:01 AM
To: restructure.sizestandards@sba.gov
Cc: zyncom@olympus.net
Subject: RIN 3245-ZA02 / RIN 3245-AF22

Dear SBA,

Thank you for the opportunity to comment on the size standard issues raised in the ANPRM RIN 3245-ZA02 / RIN 3245-AF22.

Background: My company, Zyn Systems operates a non-commercial SBIR Information web site portal which serves more than 4,000 small businesses daily, as well as academia, prime contractors and Congressional staffers. We operate this portal as a total pro bono effort and it is the most successful cross agency (all 11 agencies) SBIR web site, as listed by Google and Yahoo. We also distribute a newsletter which reports on SBIR activities by the agencies, Congress and state outreach efforts.

Being a small business, and working with many small businesses in SBIR, I want to raise an objection to allowing a VCC with majority ownership and control of a "small business" to be excluded from the affiliation size standard ruling of 500 employees/affiliates. Below is my rationale:

1. This would open Pandora's box which could allow abuse of the system and dominance by large concerns actually starting VCCs for the expressed purpose of defying small business set asides. I believe this is already being considered.
2. The purpose of SBIR is to help small businesses get a fair chance to compete for federal government R&D projects. That should not include competition with a "subsidiary" (VCC) of a non qualifying entity that is masquerading as a small business!
3. The jumbo SBIR awards such as those routinely let by NIH are a major part of the VCC problem. Those awards attract VCCs who can spend an incredible amount of money and resources to write a proposal and redistribute human resources that a legitimate small business could not compete with.
4. Rural States such as Wyoming and Montana have little VC activity and would be put at an extreme disadvantage by this proposed ruling.

5. I have been contacted by several Great Lakes states including Indiana, Illinois and Michigan who say that VCC activity in small business high tech is also very low in their states, and that the bulk of the VCC SBIR activity is in Massachusetts and California.

6. We have seen how the BIO/NVCA VCCs have greatly distorted the truth about SBIR eligibility in major news articles. They have impressed the Congress as well as the main stream press that the SBA has taken away their SBIR grant money

(see

http://www.bizjournals.com/industries/banking_financial_services/venture_capital/2003/10/27/sanfrancisco_story4.html?t=printable

) How can these people be trusted to play by the rules?

7. I find no history of SBA ever making such a blanket exemption from size standards, with the possible exception of SBICs which are SBA approved and regulated organizations, and with a known life expectancy. This could create a precedent that would damage legitimate small business competition for years to come.

8. If SBA makes an exclusion for VCCs, how will they defend against other groups who feel they deserve the same consideration? This may include some very competitive non-profits that could start entities that may have to be considered eligible. This could open the world of SBIR to major non-profit players such as Battelle.

9. As far as Biotech is concerned, the number 1 target is NIH, which is predominately a granting entity. Why couldn't these companies owned by non-qualifying VCCs compete for the remaining 97.5% of the NIH funding and leave the 2.5% SBIR for the small businesses as was intended.

10. As for defense related DoD activity, VCCs owned by large concerns could actually create a shell corporations or buy small businesses with a sole intent to get a DoD sole source procurement through SBIR and still get SBA credit with a participating agency for partnering (subcontracting) to a "small business", thereby helping to meet SBA quotas, even though it is disingenuous.

Finally, I ask that SBA consider holding hearings on this subject rather than "town meetings" after the comment period closes.. I'm sure that SBA could get respected SBIR companies and experts on both sides of the issue. Many of us out in the SBIR arena would be pleased to assist SBA in

getting expert testimony that could be entered into the record on this highly sensitive topic.

Thank you for your time and effort to research the size standard issues.

Sincerely,

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